Is there rent sharing in the Finnish metal industry?

Pekka Laine

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In this study we use matched employer-employee panel data to analyze whether white-collar workers' salaries are influenced by the employing firm's profitability in the Finnish metal industry 1995-2001. A major novelty is the use of several different wage specifications as dependent variable starting from a simple base salary and moving on gradually to cover ever more extensive salary concepts up to the point when even profits related payments and overtime payments are included in the wage concept to be estimated.

A basic multivariate regression model consisting of a wide set of observable firm and employee characteristics as independent variables produces positive and significant profit-per-employee coefficient estimates consistent with the rent sharing hypothesis of employees' wages being driven by the firm's ability to pay. The robustness of these first hand findings against certain observationally equivalent alternatives to the rent sharing hypothesis is tested using model extensions. After controlling for unobserved time-invariant employee and firm effects the magnitude of rent sharing effects reduces somewhat but they still remain statistically and economically significant. Another extension is to include one-year lagged profits which leads to the result that a prominent part of rent sharing occurs with one year's lag.

According to the study even base salaries seem to vary with the employer firm's profitability. Using the most extensive multivariate model specification covering, in addition to observable firm and employee characteristics, both fixed firm and employee effects as well as current and one year lagged rent sharing effects the long-run elasticity of monthly base salary with respect to profits is 0.016 when profits are measured by real operating profits per employee and 0.029 when profits are measured by real value added per

employee. Using the same model specification the largest elasticity estimates are achieved when the wage concept consists of base salary + benefits in kind + extra compensation for shift and Sunday work + individual/working unit performance-based payments + firm profitability-related payments. In this case and when measuring profitability by operating profits, the estimated elasticity is 0.035. When profitability is measured by value added elasticity increases up to a maximum value of 0.062.

Our results show that the significance of shared rents for the magnitude of white collar workers' overall earnings in the Finnish metal industry is well in line with previous Nordic and Western-European estimates. Instead comparison with findings from the US - especially those based on instrumented profits - indicates that rent sharing plays a smaller roll in Finland (as well as elsewhere in Western Europe). The robustness of our overall findings is strengthened by the fact that for each salary concept and model specification largest rent sharing estimates are regularly found when profits are measured with real per employee value added which needs not, at least as directly, suffer from the same kind of potential endogeneity bias as operating profits are more likely to do.